



# *The Virginia State Banker*

Regulatory news for Virginia State-chartered Banks

*E.J. Face, Jr., Commissioner*

*Bureau of Financial Institutions - State Corporation Commission*

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## **CSBS ELECTS OFFICERS FOR 2003-04**

Oklahoma Commissioner of Banks Mick Thompson took office as Chairman of the Conference of State Bank Supervisors (CSBS) at the organization's 102nd Annual Meeting and Conference in Asheville, North Carolina on May 28, 2003. Thompson succeeds Idaho Director of Finance Gavin M. Gee, who remains on the CSBS Board as Immediate Past Chairman.

CSBS members also elected John S. Allison, Mississippi Commissioner of Banking and Consumer Finance, as Chairman-elect. Allison will take office as CSBS Chairman at the 103rd Annual Meeting in May 2004. Missouri Commissioner of Finance D. Eric McClure was elected as the organization's Vice Chairman, and Virginia Commissioner of Financial

Institutions E. Joseph Face, Jr. was elected Secretary. North Dakota Commissioner of Financial Institutions Timothy J. Karsky was elected to a two-year term as CSBS Treasurer. As CSBS Secretary, Commissioner Face will begin the "rotation" of officer chairs and, if rotation holds to form, will become CSBS Chairman in May 2006 at the Annual Meeting to be held at the Williamsburg Lodge in Williamsburg, Virginia.

"State bank supervisors play a vital role in ensuring that our nation will continue to benefit from our dual-banking system," said Thompson. "The Conference of State Bank Supervisors is the only national organization dedicated to advancing the state bank charter.

"Over 80 percent of the nation's banks are state chartered," Thompson added. "That fact points out that the dual-banking system is alive and well, and undergirds the organization's mission: to champion a system that offers competitive chartering options, efficient and effective supervision, and a lower cost of regulation for all banks.

"This is an incredibly important year for CSBS and for all state banking regulators to work together on issues vital to our nation's financial services industry."

Chairman Thompson appointed Texas Banking Commissioner Randall S. James and Connecticut Banking Commissioner John P. (Jack) Burke to at-large positions on the Board.

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*The Virginia State Banker* is published quarterly by the Virginia Bureau of Financial Institutions to provide useful information to the banks and savings institutions that it regulates, and any of their related interests.

Reader comments and suggestions are welcome and should be addressed to Ginger Sandler, Bureau of Financial Institutions, P.O. Box 640, Richmond, Virginia 23218-0640, or via e-mail [gsandler@scs.state.va.us](mailto:gsandler@scs.state.va.us).

### **ACKNOWLEDGMENTS**

Thanks to the following persons for their help in producing this issue of *The Virginia State Banker*: Commissioner Face, John Crockett, Charles Dickerson, Betty Hicks, Nick Kyros, Bob Mednikov, Jane Owen, and Mark Pinson.

## **SUMMIT TO SPOTLIGHT STATE CHARTER**

CSBS is planning a "State Charter Summit" in Washington, DC to highlight why the state-chartering system is thriving, said the new CSBS Chairman Mick Thompson at the association's annual meeting, which attracted

more than 300 participants. The Oklahoma Commissioner of Banking challenged bankers and supervisors to work together to keep the state banking system strong and viable. He said the theme for his year as chairman

could be summed up in a quote from Harry S. Truman: "It's amazing what you can accomplish if you do not care who gets credit." Read more at [http://www.csbs.org/pr/speeches/2003/speech\\_05.29.03\\_amc001.htm](http://www.csbs.org/pr/speeches/2003/speech_05.29.03_amc001.htm).

## LESSONS LEARNED (AND TAUGHT)

By Harry Rowlett, Professor Emeritus

*Harry Rowlett, Senior Executive Officer of Lee Bank & Trust Company in Pennington Gap, has attended the majority of our Directors' College sessions. At the May 2003 session held in Abingdon, Mr. Rowlett gave an informative and entertaining presentation on his experiences in banking. He has given us permission to share it. In this and the next issue of **The Virginia State Banker**, we will share his talk.*

Before we start, here is a shameless plug for the Directors' College:

Congratulations to sponsors of the Directors' College and bankers for their attendance. The initiative, leadership, and cooperation of the regulators in sponsoring the Directors' College have been outstanding.

- These seminars have promoted a better understanding between directors, officers, and regulators.
- These seminars provide a learning experience for new and old directors and executive officers.
- Hopefully, it provides a forum, which allows regulators to better understand the practical challenges bankers face in directing and managing their organizations and dealing with the public.
- It makes more sense to educate bankers on how to avoid problems rather than deal with them in an adversarial atmosphere of correcting problems.
- The participation here today is evidence of the interest and success of this program.

Harry Rowlett  
Lee Bank & Trust Company

### I'M HONORED TO BE INVITED TO ADDRESS PROFESSIONAL BANKERS

I have never considered myself a "real banker." However, I have been associated with banking all my life, and have served in all executive and board positions—with the help of well-qualified "real bankers."

### WHY I MAY HAVE BEEN INVITED TO SPEAK

- In my banking career, I've been there, done that, made mistakes, faced crises, learned from those mistakes, and survived.

If you stay alert, you may learn what the mistakes were, what caused them, and how they could have been avoided.

- At this stage of my life and career, I can speak to directors, CEOs, and regulators candidly and objectively, without fear of retaliation.
- The risk for a speaker in my age group is the tendency to ramble, and not make the point.
- So, I've learned from the fundamentalist preacher—whose message is simple: "You're going to hell if you don't do right." The remainder of the sermon tells you how to get there.
- My simple message to directors is
  - (a) Regardless of how or why you were selected, your responsibility is to use independent judgment and monitor management. You do not manage.
  - (b) You must understand what's going on to carry out that responsibility.
  - (c) Advice (as a lawyer): get educated, get active, or get out.

I recently met with Commissioner Face to discuss two matters:

1. My intentions to retire from active management and from my position as president and chairman of the board of our bank;
2. A plan of reorganization and a handbook I had previously compiled, which was designed to comply with current laws and regulations. This had previously been submitted to the Commissioner's office and to the FDIC for review.

During my banking career, I have dealt with Commissioner Jones, Acting Commissioner Jessee, Commissioner Bailey, and Commissioner Face.

Our discussions at this meeting covered some history involving changes, which have occurred over time.

It was after this meeting that I was invited to share some observations that I made during my career, relating to changes in boards of directors, CEOs, and regulators.

My short answer is, "They have all improved over time."

- Boards of directors are younger, better educated, more diverse—more involved.
- CEOs are younger, more aggressive, more objective, more ethical, more involved in community life, more oriented toward public service, more willing to share responsibility and to delegate, more responsive to boards, less defensive in dealing with regulators.
- Regulators changed from a "gotcha" attitude to one of helpfulness.

Most bankers now welcome examiners to verify their compliance and effectiveness.

A review of the list of distinguished bankers and regulators here today gives the speaker the feeling that he is "preaching to the choir."

However, your presence indicates your interest in improving or confirming your bank's corporate governance, and audit and control procedures.

Most of what I have to say is elementary and well understood by everyone in attendance here today.

- However, my observation and experience tells me that most community bank boards of directors are inclined not to question the performance, methods, and procedures of a bank that appears to be profitable and growing.

These boards are inclined to defer to the CEO, trusting and assuming that all decisions and results are accurate.

- In my humble opinion, this can be a very hazardous approach to banking in this volatile and complex financial world.
- This approach ignores what you were elected to do as a director: you were elected to monitor management

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## LESSONS LEARNED (AND TAUGHT)

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decisions. This involves asking questions and analyzing the answers.

- This approach further ignores the fact that the very nature of banking involves risk. The risk involves factors within the control of the participants (internal risk). The risk also involves factors totally outside the control of the participants (external risk).
- Most decisions in banking are a matter of judgment, as opposed to 100% positive or 100% negative. Directors should trust and verify.
- In my opinion, the ultimate success of a bank depends not only on the individual judgment of the CEO, but must involve the collective judgment of all participants—in a well-defined organizational plan.

Therefore, it is essential that the director ask appropriate questions of management in order to be useful in fulfilling your responsibility to stockholders and other interested parties.

To be informed, the director must know what questions to ask. This requires some understanding of banking.

As a child, I learned by listening to men assembled around a potbelly stove, sitting on nail kegs or benches at Arthur Edds' country store—swapping tall tales or lecturing about the vices or virtues of the time.

There was always one of the town's less-gifted individuals in the group, who usually provided some entertainment. On one occasion, one of the men of our town, who was well known for expounding on his virtues and ethics, had the floor.

He related that he didn't drink whiskey, smoke cigarettes, chew, cuss, lie, steal, gossip—that he paid his debts and “gave his employer a full day's work for a day's pay.” He attended Sunday school and church regularly and paid the preacher. He also supported his family. There was a moment of silence in awe of this good and virtuous man. The less gifted individual broke the silence with the question “Do you chase women?” There was no answer. A loud laughter followed,

and the man of virtue blushed, turned, and slammed the door as he left the room.

Some lessons can be learned from this story for directors and CEOs:

1. It is important to know what questions to ask.
2. Sometimes, it's more important to recognize what is not said or reported, than it is to focus on what is said or reported.
3. For the CEO, it is important to manage the bank and conduct yourself in such a manner as to be prepared to answer pertinent questions.
4. It is even possible to learn from a fool—so stay alert!

### CHANGES IN THE BANKING INDUSTRY

Dramatic to radical changes have occurred in all areas of the banking industry during my career.

- To appreciate these changes, they must be viewed in relation to history.
- We've evolved from “sharp pencil” to “computers, fax machines, and e-mail.”

### OBSERVATIONS

My observations span 75 years—from 1927 to 2002.

- My first observation and impressions were as a child, living next door to the cashier of our small-town bank. This was during the early 1930s, in the midst of the “Great Depression.” There was very little money in circulation, so banking was simple. To fully appreciate the nature of banking at that time, we must consider the economic, social, and cultural setting in which it was conducted.
- My observations tell me that any banker who was associated with this era, or who was influenced by anyone who experienced the “Great Depression,” is more conservative in judgment than the “new generation” of professionals.

- Our town was typical of many small towns in rural areas of Southwest Virginia. Employment was limited to farm, railroad, highway maintenance; school system; and PWA, WPA, and CCC, etc. Business establishments in our town were limited to bank, gas station (hand pump), four general merchandise stores, post office, “poultry house” (purchased eggs, chickens, hides, berries, nuts, ginseng, etc.), and the L & N Depot.

Most families raised a garden, canned food, kept a cow for milk and butter, and “fattened” a hog for meat, which was hung in the smokehouse, canned, or stored in the ice box. There was no refrigeration. Every family had a shotgun and a .22 rifle to hunt quail, rabbit, and squirrel. They also had a fishing pole to catch fish in Indian Creek or Powell River.

What does this have to do with banking? These were hard times and the culture in which banking was conducted.

- The banker in this culture was perceived as the most important man in town—from a secular perspective. He was also the Notary Public, who gave legal advice.
- This was a very religious community, so the preacher was also important in providing solace and comfort in those “hard times,” and hope for the ultimate future.
- Crime usually was not a problem, because neighbors knew everything going on in the community EXCEPT when the Clarence Bunch gang came through and robbed our little bank. Miss Jess, a bank teller, saved her diamond ring by concealing it in her mouth.

The postmaster, who operated the store near the bank, was a well-known “busy body,” curious about the business of everyone in town. He observed a strange car and some dressed-up men going in the bank, so his curiosity got the best of him. He grabbed up a \$20 bill to get change at the bank, so he could see what business these men were conducting. They may be

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## LESSONS LEARNED (AND TAUGHT)

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bank examiners. When he entered the bank, the robbery was in progress. His \$20 bill was grabbed from his hand and he was pushed to the floor at gunpoint with Miss Jess. Fortunately, no one was killed or injured. However, the postmaster's pride was crushed to the amusement of most of the town's people.

This was the culture in which community banking evolved in the most rural areas of Southwest Virginia.

### MY OBSERVATIONS OF THE BANKER AND HIS BOARD

The banker and his board held a virtual monopoly on all aspects of community life.

- The banker and his board were the most successful men, who owned the land and business establishments. They controlled the politics, such as

who got employment in the school system, highway system, welfare system (now social services), or any other government-related job. A loan was "a favor" to the borrower.

- This sounds like an indictment of this element of society. It is not. The majority of these men were very compassionate and accommodating to their neighbors. It was the culture and reality of that period of our history.
- Individuals in our society have always been and always will be driven by self-interest. This concept is inherent in a capitalistic society and must be regulated.
- However, with the passage of time, our culture has advanced or changed to give us a better understanding and appreciation for social, political, and economic justice and a sense of ethics and acceptable conduct in business,

"with a little help from Congress and the regulators."

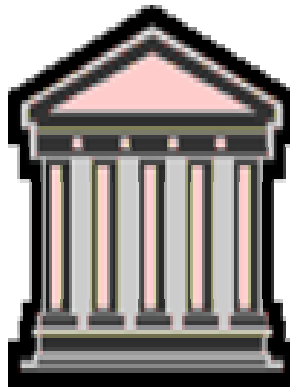
- These depressed times persisted, more or less, until the beginning of World War II in 1939—when younger people left our area for work in defense factories, or volunteered, or were drafted into military service.
  - This was the beginning of the end of the "Great Depression"—"radical change was in the winds."
- Even women started working in defense plants and wearing trousers. They could also enlist for military service. They were called WACKS, BAMS, WAFS, and WAVES.

- Anyone here who remembers all these acronyms from World War II should also consider retirement from active bank management.

*(to be continued in the Fall issue of  
The Virginia State Banker)*

## BB&T CORPORATION ACQUIRES FIRST VIRGINIA BANKS, INC.

On July 1, 2003, BB&T Corporation—an \$80 billion bank holding company based in Winston-Salem, North Carolina—acquired First Virginia Banks, Inc., an \$11.2 billion multi-bank holding company based in Falls Church, Virginia. State and federal approval of the acquisition came after BB&T Corporation agreed to divest a number of branches to reduce anti-competitive effects of the proposed combination. First Virginia Banks, Inc. owned and operated six banks in Virginia and two banks in Maryland. The Virginia banks will be merged into Branch Banking and Trust Company of



Virginia, which is based in Richmond, Virginia; and the Maryland banks will be merged into Branch Banking and Trust Company which is based in Winston-Salem, North Carolina. Branch Banking and Trust Company of Virginia will be the largest Virginia State-chartered bank in terms of deposits.

BB&T Corporation will divest 13 branches in Virginia with total deposits of \$285 million. The winning bidders for the branches were Virginia Financial Group, Inc., based in Staunton, Virginia; and Eastern Virginia Bankshares, Inc., based in Tappahannock, Virginia.

## EXAMINATION EXIT MEETINGS

The Bureau is, by this notice, encouraging bank CEOs to invite the bank's chairman, vice chairman, and/or audit committee chairman to the examination exit meeting. If the CEO or the examiner in charge sees benefit

to the whole board attending the meeting, either may request that any available board members be present after notification to the other.

Given the increased focus on corporate governance, Bureau manage-

ment is of the opinion that this should be standard practice and is therefore encouraging greater board participation in the examination process.

## CSBS ELECTS OFFICERS (continued from page 1)

Other Board members include Delaware Bank Commissioner Robert A. Glen, Indiana Director of Financial Institutions Charles W. Phillips, Louisiana Deputy Commissioner of Financial Institutions Doris B. Gunn,

Wyoming Commissioner of Banking Jeffrey C. Vogel, and Utah Commissioner of Financial Institutions G. Edward Leary.

## JUMP\$TART COALITION

The Jump\$tart Coalition for Personal Financial Literacy held its spring Coalition luncheon and meeting on April 3, 2003. The meeting's purpose was to celebrate April as Financial Literacy for Youth Month and draw attention to the need for personal

finance education among young adults. The event boasted record attendance and was held in the ballroom of the Washington Grand Hyatt. The keynote speaker was Federal Reserve Chairman Alan Greenspan. Many special guests were in attendance, including Ms. Judith

J. Chapa, Deputy Assistant Secretary of Financial Education, U.S. Treasury; and Ms. Cynthia A. Glassman, Commissioner, U.S. Securities and Exchange Commission. Virginia Commissioner of Financial Institutions E. Joseph Face, Jr. represents state regulators on the Jump\$tart Coalition.



Jump\$tart executive committee (left to right): E.J. Face, Jr.; Dara Duguay; Randy Lively; Alan Greenspan; ING DIRECT CEO Arkad Kuhlmann; Nancy I. Brown; and Don Blandin

## SCC APPROVES NEW BANKS

On July 15, 2003, the State Corporation Commission (SCC) approved the application of Colonial Virginia Bank to commence banking business in Gloucester and to establish a branch in Gloucester Point. The Chief Executive Officer will be William J. Farinholt; the Chief Financial Officer will be Kenneth E. Smith. The Bank will be a member of the Federal Reserve System and will begin business with \$12.1 million in capital. Colonial Virginia Bank is expected to open for business in October 2003.

On September 8, 2003, the SCC approved the application of The Community Bank of Virginia to commence banking business in Midlothian and to establish a branch on Robious Road in Chesterfield County. The Chief Executive Officer will be H.E. "Hank" Richeson; the Chief Financial Officer will be Zirkle Blakey, III. The Bank will be a member of the Federal Reserve System and will begin business with \$11.4 million in capital. The Community Bank of Virginia is expected to open for business in November 2003.

## FALL 2003 BANK DIRECTORS' COLLEGE

The Fall Bank Directors' College will begin Wednesday, November 5 at noon, and end Thursday, November 6, at noon, and will be held at The Jefferson Hotel in Richmond.

This session of the Bank Directors' College will review the essential elements geared toward the new bank director.

This information also may be valuable to the more experienced director.

If you have any questions about registration for the Directors' College, please contact VACB at (804) 217-8251.

## IMPORTANT TELEPHONE NUMBERS

- Banks and Savings Institutions (804) 371-9704
- Consumer Finance and Mortgage Companies (804) 371-9701
- Licensing (applications, name changes, annual reports) (804) 371-9690
- Consumer Complaints (804) 371-9705
- Corporate Information (SCC Clerk's Office) (804) 371-9733
- Bureau's FAX number (804) 371-9416
- TDD (804) 371-9206

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Check out our Web site at  
[www.state.va.us/scc/division/  
banking.](http://www.state.va.us/scc/division/banking)

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